



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

MEMORANDUM TO KERRY WEEMS

FROM: Barry Clendenin *Barry Clendenin*  
SUBJECT: Medicare/Medicaid Payment Rates for IHS Facilities  
DATE: March 22, 2002

This memorandum approves the Medicare/Medicaid payment rates for medical facilities operated by the Indian Health Service (IHS) for Calendar Year (CY) 2002 as submitted. The proposed rate increase is retroactive to January 1, 2002.

The rates reflect information provided by HHS to OMB on February 22nd and 25th.

Category	CY 2002 Rate
Medicaid Inpatient (per diem rates)	Lower 48: \$1,507 Alaska: \$1,967
Medicaid Outpatient (per visit rates)	Lower 48: \$197 Alaska: \$374
Medicare Outpatient (per visit rates)	Lower 48: \$160 Alaska: \$364
Medicare Part B Ancillary (per diem rates)	Lower 48: \$287 Alaska: \$687

We note that the rates for CY 2002 are derived from FY 2000 actual IHS cost report data for all categories. In addition, the number of IHS hospital cost reports increased from 19 in 2001 to 27 in 2002. The 27 hospital cost reports exceeds the target of 24 agreed to last year, and we understand that IHS is likely to exceed the target of 29 in 2003. OMB is pleased that IHS has continued to progress in their efforts to expand cost reporting. We look forward to IHS' continued efforts in this area.

However, OMB remains concerned about the timeliness of the rates submission. In the future, rates should be submitted in the normal budget process so that funding issues can be taken into account in the budget. Given the complexity of issues, OMB needs sufficient time for review as well as discussions among HHS, IHS and CMS.

While OMB approves the rates as proposed, we remain concerned about the quality and comprehensiveness of the cost report data. We are also concerned that the cost based system of reimbursement for Medicaid does not provide incentives for efficiency that a

PPS system encourages. We would like to work with you on several issues in the coming months, specifically we would appreciate the following:

1. A detailed briefing by May 31, 2002, for OMB staff on: 1) the development of cost reports; 2) rate setting processes for physicians services in Medicare and Medicaid; 3) the current status of relations and working partnerships between IHS and States; and 4) a summary of total Medicaid and Medicare collections by IHS facilities (including Medicare inpatient costs and physician services).
2. A meeting with HHS by August 1, 2002 to discuss options for the following issues:
  - Determining alternate reimbursement for IHS Medicare Part B ancillary services for FY 03.
  - Determining alternate reimbursement systems for IHS Medicaid services in the coming years. Possible alternatives that OMB would like to consider include moving IHS towards State rate reimbursement and/or developing a reimbursement system similar to Medicare PPS.
3. By January 1, 2003, all IHS facilities submitting cost reports will provide information regarding the percentage of Medicare and Medicaid patients served per facility in FY01.

# MEDICARE AND MEDICAID RATES

## Rate Request for IHS (CY2002 Versus CY2001)

	<i>CY2001</i> <i>Actual</i>	<i>CY2002</i> <i>Proposal</i>	<i>CY2002 -</i> <i>\$ Change</i>	<i>CY2002</i> <i>% Change</i>
<b><u>MEDICAID: (1)</u></b>				
<b>INPATIENT PER DIEM RATES</b>				
Alaska	\$1,813	\$1,967	+\$154	+ 8%
Lower 48	\$1,306	\$1,507	+\$201	+ 15%

**MEDICAID: (2)**  
**OUTPATIENT VISIT RATES**

Alaska	\$349	\$374	+\$25	+ 7%
Lower 48	\$185	\$197	+\$12	+ 6%

**MEDICARE: (3)**  
**OUTPATIENT VISIT RATES**

Alaska	\$334	\$364	+\$30	+ 9%
Lower 48	\$157	\$160	+\$ 3	+ 2%

**MEDICARE: (4)**  
**PART B ANCILLARY RATES**

Alaska	\$997	\$687	-\$310	- 31%
Lower 48	\$751	\$287	-\$464	- 62%

**NOTE:** The above CY2002 Rates must be approved by OMB and published in the Federal Register before they become effective on 1/1/2002.

- (1) Medicaid inpatient rates exclude physician services. IHS bills each state separately for Medicaid inpatient physician services based on agreements with the states. Medicare inpatient rates are not included as they vary and are based on Diagnostic Related Groupings (DRG's).
- (2) Medicaid outpatient rates include cost of physician services.
- (3) Medicare outpatient rates exclude cost of physician services as they are billed separately and based on Medicare regulations.
- (4) Based on costs, affects very low workload in IHS (Inpatients W/Out Part A).

Jan 5, 2002 2002 (Over 2001) frmm%Request



# CY2002 IHS Rate Request - Dollar Increase Over FY2001

	Medicare	Medicaid	Total
• FY2002	-\$ .1M	\$13.8M	\$13.7M
• FY2003	-\$ .3M	\$27.6M	\$27.3M
• 2 Years	-\$ .4M	\$41.4M	\$41.0M